

Core sector may get wider access to ECBs

Our Bureau
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INFRASTRUCTURE sector could find overseas debt window opening further as the government looks all set to examine refinancing of domestic borrowing funded infrastructure project through external commercial borrowings (ECBs).

"Refinancing of domestic debt through ECBs is not allowed in general... We need to explore the mechanism to allow external funds replace domestic funds..." finance secretary Ashok Chawla said at conference on infrastructure sector organised by Planning Commission.

The government had recently in a limited way opened the refinancing window for the telecom sector. It amended overseas borrowing rules allowing winners in an upcoming 3G wireless spectrum auction to pay the fee in rupees, which could be later refinanced by overseas borrowing within 12 months.

The ECB policy is administered by the finance ministry and RBI jointly through the High Level Coordination Committee on Financial Markets-ECB. Presently, companies can borrow overseas at an average rate including currency hedging costs at around 9%-10%, which is still lower than domestic credit. However, such a move could have implications for monetary policy especially at a juncture when capital flows into emerging economies such as India are expected to rise with

recovery in global economy.

Mr Chawla, however, ruled out any such immediate threat. "... the (capital) inflow is also not to the extent and of the variety which are causing any stress or going beyond the realistic limits, which the current account deficit permits. Therefore, at this stage it is not a matter of great policy concern," Mr Chawla said.



Foreign inflows in excess of what the economy can absorb can make monetary management difficult, cause high inflation, and local currency to appreciate, eroding exports competitiveness. It also imposes cost on the government as it has to sterilise these dollar inflows. Dollar funds increase supply of rupee funds to increase, which are then mopped up through bonds to keep high liquidity from causing inflation. This sterilisation has costs as progressively high rates have to be offered on bonds to take out rupee funds.

Mr Chawla said the (rupee) appreciation has not been of any great magnitude to cause stress. The rupee has been appreciating against the US dollar in the current fiscal, largely due to signs of economic recovery and revival in FII inflows after March 2009. So far this year, the rupee has appreciated 2.3% against the greenback. The local currency, however, hit a fresh one-week low against the dollar at 45.60/61 on Tuesday, after rising in early trade following the rise of the American currency against some major global currencies.